



STATE OF DELAWARE

OFFICE OF AUDITOR OF ACCOUNTS

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November 13, 2007

To the School Board Members
Campus Community School
Dover, Delaware

In planning and performing our audit of the financial statements of Campus Community School (the School) for the year ended June 30, 2007, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal control and operating efficiency. This letter does not affect our report dated November 13, 2007, on the financial statements of the School.

The matters noted are only those that came to our attention, and had our procedures for internal control related matters been more extensive, other matters might have been noted. Also, the functioning of the internal control was assessed at a point in time, and no assurances can be drawn that the internal control is functioning or will continue to function beyond the point in time at which it was assessed. No opinion is being expressed regarding the internal control taken as a whole.

We will review the status of these findings during our next audit engagement.

The attached comments and recommendations in Appendix A and Appendix B are intended solely for the information and use of the School's Board of Directors and management, Department of Education, Office of the Governor, Office of Controller General, Office of Attorney General, Office of Management and Budget, and Department of Finance and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(c), this report is public record and its distribution is not limited.

Tammy L. Bailey, CFE
Field Audit Manager
Office of Auditor of Accounts

OTHER COMMENTS AND RECOMMENDATIONS

Finding: Deposits Not Made Timely

Campus Community School is not depositing funds in a timely manner. Six out of 40 transactions, totaling \$2,973.35, were not deposited in accordance with State guidelines.

The State of Delaware *Budget and Accounting Manual* states, "All monies which belong to the State are to be deposited on the day of receipt to the credit of the State Treasurer in the designated depository of the State's funds, with the exception of those funds received after the close of normal banking hours or when an agency receives less than \$100 in daily receipts. Those agencies which do receive less than \$100 in daily receipts, shall make a deposit when the accumulated undeposited receipts exceed \$100 or on a weekly basis, whichever occurs first."

Inattentiveness to State regulations resulted in untimely deposits and an increased risk of misappropriation.

Recommendation

Campus Community School comply with the requirements of the State of Delaware *Budget and Accounting Manual* and ensure that staff are aware of requirements and acceptable practices for handling cash receipts.

Auditee Response

This finding has already been communicated to the office staff responsible for deposits. Going forward, Campus Community School will make every effort to comply with the deposit requirements of the State of Delaware.

Finding: Debt Covenant Not Met

Campus Community School calculated their Funds Flow Coverage Ratio on June 30, 2007, with cash basis figures, which is inconsistent with the formula referred to in their debt agreement with Wachovia Bank.

Per the Wachovia Bank *Reimbursement, Credit and Security Agreement*, "Borrower shall, on the last day of each fiscal year-end, maintain a Funds Flow Coverage Ratio of not less than 1.10 to 1.00. "Funds Flow Coverage Ratio" shall mean the sum of earnings before interest expense, depreciation and amortization; minus withdrawals and non-cash income, divided by the sum of current maturities of long-term debt and capital lease obligations plus interest."

As a result of not calculating their Funds Flow Coverage Ratio per the formula stated in their debt agreement, Campus Community School did not meet their debt covenant on June 30, 2007.

OTHER COMMENTS AND RECOMMENDATIONS

Recommendation

That Campus Community School develop a better process for reviewing their debt covenant ratio to be consistent with their debt agreement.

Auditee Response

As recommended, Campus Community School will develop a better process for reviewing their debt covenant ratio to be consistent with their debt agreement.

In FY06, Campus Community School received \$350,000 in funding which was not expended until FY07 on a HVAC-system for Bradford Street School. Having these transactions in two different fiscal years resulted in CCS not meeting the debt covenant on June 30, 2007.

STATUS OF PRIOR YEAR COMMENTS AND RECOMMENDATIONS

Finding: Lack of supporting documentation for cash receipt documents (CRs)

Campus Community School receives money for items such as donations and parking permits. Receipts are prepared when cash or checks are received, but the receipts cannot be traced to the corresponding cash receipt document (CR) and deposit slip. Therefore, CRs prepared by Campus Community School do not contain adequate supporting documentation is not maintained for all money received by the School.

According to the State of Delaware *Budget and Accounting Manual*, "cashiers will issue an official pre-numbered receipt to a payer, a copy of which will be retained in file for audit purposes."

Recommendation

Campus Community School prepares receipts when cash and checks are received and establish a system where the receipts can be traced to the corresponding CR and deposit slip. The School should prepare receipts using triplicate receipts - the original is given to the person giving the money, one copy is attached to the CR document, and the remaining copy should remain in the receipt book for ease of reconciliation.

Management Response

As recommended, Campus Community School will prepare receipts when cash and checks are received and establish a system where the receipts can be traced to the corresponding CR and deposit slip.

Current Year Status

Not Implemented. The School did not provide receipts for 9 out of 40 transactions tested. In addition, 6 out of 40 transactions tested did not contain adequate supporting documentation.

Finding: DFMS Reconciliations

The Business Manager reconciles Campus Community School's DFMS activity monthly. However, the reconciliations are not signed and dated by the preparer and are not reviewed by an Administrator.

According to the State of Delaware *Budget and Accounting Manual*, "the following specific control objectives are widely accepted as elements of good control and should be used by management and financial managers:

Validation - ensuring that recorded transactions represent real transactions.

Authorization - ensuring that all transactions are approved by management."

Lack of signatures and dates results in failure to provide evidence of timely validation and authorization. While all reconciliations reviewed were proper, Office of Auditor of Accounts (AOA) was unable to determine if reconciliations were performed timely.

Recommendation

Campus Community School's Business Manager sign and date all DFMS reconciliations when prepared and an Administrator review, sign, and date the reconciliations.

STATUS OF PRIOR YEAR COMMENTS AND RECOMMENDATIONS

Management Response

While all reconciliations reviewed were proper, Campus Community School will ensure that all DFMS reconciliations are signed, dated, and reviewed by an administrator to ensure timely validation and authorization.

Current Year Status

Partially Implemented. Two out of three reconciliations tested were signed by the preparer but not signed or dated by the reviewer. One out of three reconciliations tested were not signed or dated by the preparer or reviewer.

Finding: Written Policies and Procedures

Campus Community School has insufficient policies and procedures regarding the recording, processing, summarizing, and reporting of revenues, receivables, and receipts and does not have written policies and procedures regarding the recording, processing, summarizing, and reporting of expenditures and payroll and related liabilities. In addition, the School does not have policies and procedures regarding the recording, processing, summarizing, and reporting of cash held outside of DFMS.

According to the State of Delaware *Budget and Accounting Manual*, "Department or agency heads are responsible for establishing and maintaining an effective system of internal control." Additionally, the *Manual* states, "internal control provides management with reasonable assurance that its policies and procedures are implemented and consistently followed to ensure efficient and effective organizational operation." Further, the *Manual* states, "A well designed system of controls must include written policies and procedures to ensure that each control objective is met."

By not maintaining sufficient policies and procedures for financial transactions, the School has no method of ensuring efficient and effective organizational operation.

Recommendation

Campus Community School develop and implement sufficient written policies and procedures governing the recording, processing, summarizing, and reporting of revenues, receivables, and receipts; expenditures; payroll and related liabilities; and cash held outside of DFMS. These policies and procedures should incorporate information such as:

- Sufficient segregation of duties or mitigating controls.
- Specific job functions for each employee, including preparation and review.
- Retainage of support documentation.

Management Response

Campus Community School administration will meet with representatives from the Auditor's Office to assist us in preparing the above-mentioned policies and procedures.

Current Year Status

Partially implemented. The policies and procedures are adequate in regards to revenues, expenditures, and payroll. However, the policies and procedures do not address the accruals: accounts receivable, accounts payable, and accrued payroll.

STATUS OF PRIOR YEAR COMMENTS AND RECOMMENDATIONS

Finding: Reconciliation Timeliness and Verification

Campus Community School maintains four accounts outside of DFMS. Bank reconciliations for these accounts were not signed or dated by the Business Manager.

According to the State of Delaware *Budget and Accounting Manual*, "the following specific control objectives are widely accepted as elements of good control and should be used by management and financial managers:

Validation - ensuring that recorded transactions represent real transactions.

Authorization - ensuring that all transactions are approved by management."

Lack of signatures and dates results in failure to provide evidence of timely validation and authorization. AOA was unable to determine if reconciliations were performed timely.

Recommendation

The Business Manager at Campus Community School should sign and date bank reconciliations to signify validation and authorization.

Management Response

Going forward, the Business Manager will sign and date bank reconciliations.

Current Year Status

Implemented.